



Social Security's \$2.7 trillion surplus dwarfed by future deficit

WASHINGTON — As millions of baby boomers flood Social Security with applications for benefits, the program's \$2.7 trillion surplus is starting to look small.

For nearly three decades Social Security produced big surpluses, collecting more in taxes from workers than it paid in benefits to retirees. The surpluses also helped mask the size of the budget deficit being generated by the rest of the federal government.

Those days are over.

Since 2010, Social Security has been paying out more in benefits than it collects in taxes, adding to the urgency for Congress to address the program's long-term finances.

"To me, urgent doesn't begin to describe it," said Chuck Blahous, one of the public trustees who oversee Social Security. "I would say we're somewhere between critical and too late to deal with it."

Once the surplus is gone

The Social Security trustees project the

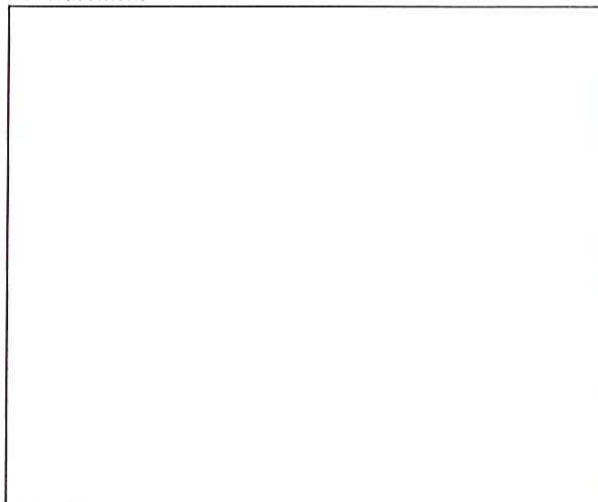
surplus will be gone in 2033. Unless Congress acts, Social Security would only collect enough tax revenue each year to pay about 75 percent of benefits, triggering an automatic reduction.

Lawmakers from both political parties say they want to avoid such a dramatic benefit cut for people who have retired and might not have the means to make up the lost income. Still, that scenario is more than two decades away, which is why many in Congress are willing to put off changes.

But once the surplus is spent, the annual funding gaps start off big and grow fast, which could make them hard to rein in if Congress procrastinates.

The projected shortfall in 2033 is \$623 billion, according to the trustees' latest report. It reaches \$1 trillion in 2045 and nearly \$7 trillion in 2086, the end of a 75-year period used by Social Security's number crunchers because it covers the retirement years of just about everyone working today.

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Add up 75 years' worth of shortfalls and you get an astonishing figure: \$134 trillion. Adjusted for inflation, that's \$30.5 trillion in 2012 dollars, or eight times the size of this year's entire federal budget.

In present value terms, the Social Security Administration says the shortfall is \$8.6 trillion. That means the agency would need to invest \$8.6 trillion today, and have it pay returns of 2.9 percent above inflation for the next 75 years, to produce enough money to cover the shortfall.

That's the rate of return Social Security expects to get from its trust funds. The problem, of course, is that Social Security doesn't have an extra \$8.6 trillion to invest.

Harder to fix over time

Social Security Commissioner Michael Astrue said he is frustrated that little has been done to solve a problem that is only going to get harder to fix as 2033 approaches. If changes are done soon, they can be spread out over time, perhaps sparing current retirees while giving workers time to increase their savings.

"It won't be easy but it's just going to get harder the longer they wait," Astrue said.

There is no consensus in Washington on how pressing the problem is.

President Barack Obama created a deficit-reduction commission in 2010 but didn't embrace its plan for Social Security: raising

the retirement age, reducing benefits for medium- and high-income workers and raising the cap on the amount of wages subject to the payroll tax, all very gradually.

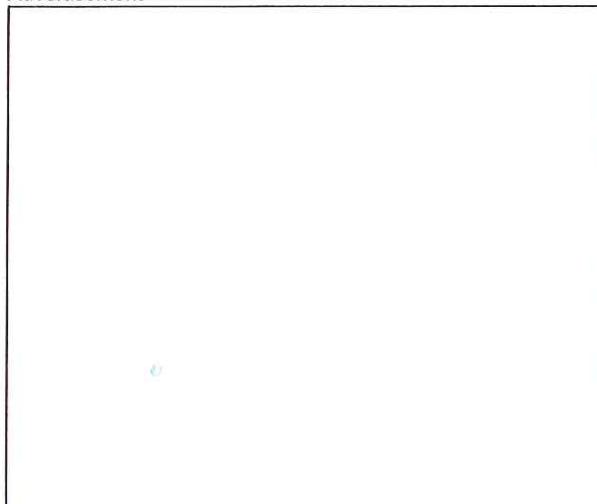
The issue has been largely absent from this year's presidential election. Neither Obama nor his Republican opponent, Mitt Romney, has made it a significant part of the campaign.

Blahous, a Republican, warns that the magnitude of the problem is becoming so great that "Social Security's days as a self-financing program are numbered" if Congress doesn't act in the next few years. Democrat Robert Reischauer, Social Security's other public trustee, is less dire in his predictions but has told Congress that it needs to act within five years.

Others express less urgency.

Two decades yet to go

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"I would like to see Congress move on this tomorrow but we do have 22 years before there is any cut in Social Security benefits," said Sen. Bernie Sanders, a liberal independent from Vermont who heads the Senate Social Security caucus. "Compared to other crises — the collapse of the middle class, real wages falling for American workers, 50 million people having no health insurance — how would I rate the Social Security situation? Nowhere near as serious as these and many other problems."

AARP, the nation's most powerful lobbying group for older Americans, agrees.

"I'm not suggesting we need to wait 20 years but we do have time to make changes to Social Security so that we can pay the benefits we promised," said David Certner, AARP's legislative policy director. "Let's face it. Relative to a lot of other things right now, Social Security is in pretty good shape."

Social Security is financed by a 12.4 percent tax on wages. Workers pay half and their employers pay the other half. Self-employed workers pay the full amount.

The tax is applied to the first \$110,100 of a worker's wages, a cap that rises each year with inflation. For 2011 and 2012, the tax rate for employees was reduced to 4.2 percent but is scheduled to return to 6.2 percent in January.

Social Security's finances are being hit by a

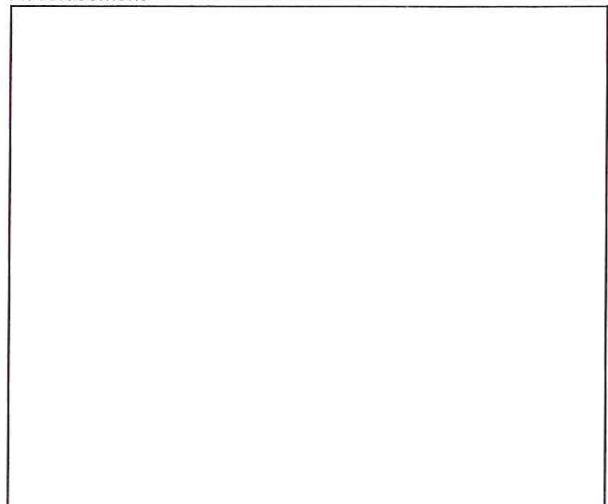
wave of demographics as aging baby boomers reach retirement, leaving relatively fewer workers behind to pay into the system. In 1960, there were 4.9 workers paying Social Security taxes for each person getting benefits. Today, there are about 2.8 workers for each beneficiary, a ratio that will drop to 1.9 workers by 2035, according to projections by the Congressional Budget Office.


About 56 million people collect Social Security benefits, and that is projected to grow to 91 million in 2035. Monthly benefits average \$1,235 for retired workers and \$1,111 for disabled workers.

Marge Youngs, a 77-year-old widow from Toledo, Ohio, said Social Security makes up most of her income. She's reasonably sure that Social Security's financial problems won't affect her benefits but worries about her children and grandchildren.

"We might not have to worry about it, but it's the next generation coming up that will," Youngs said.

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How big is Social Security's funding shortfall?

That depends on how you look at it. Over the next 75 years, after Social Security drains its trust funds, the massive program is scheduled to pay out \$134 trillion more in benefits than it will collect in tax revenue, according to agency data.

That's an immense number that could use further explanation. Three ways to look at \$134 trillion spread out over 75 years:

- \$30.5 trillion in 2012 dollars. We all know that \$134 trillion won't buy nearly as much in 2086 as it would today. Social Security's number crunchers project that annual inflation will average 2.8 percent in the long term, after a short period of slightly lower inflation. When the annual shortfalls are discounted for inflation to 2012 dollars, they come to \$30.5 trillion.

- \$8.6 trillion in present value. This is a financial term that Social Security uses to reflect the time value of money. It means that if Social Security had an additional \$8.6 trillion on hand today and invested it in a security that paid returns of 2.9 percent above inflation for 75 years, the program would have enough money to cover the shortfall.

The problem, of course, is that Social Security doesn't have an additional \$8.6 trillion on hand to invest.

- 2.67 percent of taxable payroll. Social Security uses this term often. Think of it this way: If payroll taxes were increased by 2.67 percentage points, to a little more than 15 percent, they would generate enough money to cover the 75-year shortfall, with some left over to pay for an extra year of benefits.

Why the extra year? Who wants to start off the next 75 years with a deficit?

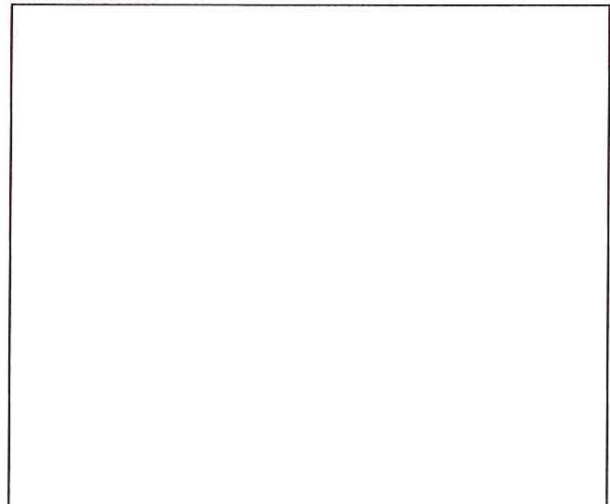
Sources: Social Security Administration; AP calculations


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